

Message Text

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TAGS: EFIN, ENRG, CERP, VE

SUBJECT: BUDGET BILL FOR 1976

REF CERP 0200, CERP 0201

1. SUMMARY: THE VENEZUELAN BUDGET BILL FOR 1976 CALLS FOR A BS 7 BILLION REDUCTION IN INCOME AND EXPENDITURES COMPARED TO THE MODIFIED BUDGET FOR 1975. THE REDUCTION IS DUE TO THE PROJECTED DECREASE IN PETROLEUM REVENUE AS A RESULT OF DECLINING PRODUCTION. THE MAIN VICTIM OF THE BUDGETARY CUT WOULD BE THE VENEZUELAN INVESTMENT FUND WHOSE ALLOCATION HAS BEEN CUT IN HALF FOR 1975 AND REDUCED TO ZERO FOR 1976. BECAUSE THE GOVT HAS ALLOWED EXPENDITURES TO RISE ALMOST TO THE LEVEL OF THE INCREASE IN OIL REVENUE OVER THE LAST TWO YEARS, IT NO LONGER HAS A BUFFER AND IS LOCKED INTO A HIGH LEVEL OF EXPENDITURE FOR CURRENT OPERATIONS. NEVERTHELESS THE GOVT CONTINUES TO POSTPONE NECESSARY TAX REFORM. CONGRESS WILL CONSIDER THE GUDGET BILL WHEN IT RECONVENES IN OCT. END SUMMARY.

2. MIN OF FINANCE HECTOR HURTADO ANNOUNCED SEPT 12 THAT THE 1976 BUDGET BILL APPROVED BY CABINET PROVIDES FOR A REVENUE AND EXPENDITURE LEVEL OF BS.33.167 BILLION; 16 PERCENT BELOW THE REVISED BUDGET FOR 1975 OF BS. 29.531 BILLION. THE DECLINE IN THE

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BUDGET LEVEL IS THE RESULT OF THE SHARP DROP IN OIL REVENUE FROM

THE REVISED ESTIMATE OF BS. 31.623 BILLION FOR 1975 TO A PROJECTED BS.24.613 BILLION FOR 1976. ON THE OTHER HAND ORDINARY REVENUE FROM OTHER SOURCES IS EXPECTED TO INCREASE FROM BS.6.8 BILLION IN 1975 TO BS.8.404 BILLION.

3. THE BS. 24.613 BILLION REVENUE FROM OIL PROJECTED FOR 1976 IS PREDICATED ON AN AVERAGE PRODUCTION LEVEL OF BS.2.2MILLION BARRELS PER DAY. ROYALTIES FROM OIL ARE EXPECTED TO PROVIDE BS.6.996 BILLION AND INCOME TAX ON OIL ATTRIBUTED TO 1976 BS.15.219 BILLION AND PART OF 1975 BS.2.398 BILLION.

4. THE VENEZUELA INVESTMENT FUND WILL ABSORB MOST OF THE DROP IN OIL REVENUE. ITS INITIAL ALLOCATION IN 1974 WAS BS.13 BILLION. THIS YEAR, ACCORDING TO THE ORIGINAL BUDGET, THE FUND WOULD HAVE RECEIVED BS.13.243 BILLION BUT AS A RESULT OF THE DECREASE IN OIL REVENUE THE 1975 ALLOCATION HAS BEEN REDUCED TO BS.7.457 BILLION. THE BUDGET BILL FOR 1976 ALLOCATES NO MONEY FOR THE FUND IN ACCORDANCE WITH THE FUND'S STATUTES WHICH PROVIDE THAT IF THE LEVEL OF OIL REVENUE SHOULD FALL 25 PERCENT BELOW THE LEVEL OF 1974, THE FUND SHOULD RECEIVE NO ADDITIONAL FUNDS FROM THE GOVT. ON THE OTHER HAND THE GOVT WILL MAKE AN INITIAL CONTRIBUTION TO THE CAPITAL OF PETROVEN (THE NEWLY ESTABLISHED NATIONAL PETROLEUM HOLDING CO.) OF BS.1 BILLION FROM THE 1975 BUDGET AND BS.1.5 BILLION FROM THE 1976 BUDGET BILL.

5. MINISTRIES WHICH WOULD SUSTAIN REDUCTIONS UNDER THE 1976 BUDGET BILL INCLUDE INTERIOR, DEFENSE, AGRICULTURE, LABOR AND MINES AND HYDROCARBONS. THE MAIN REASON FOR A DECREASE IN THE INTERIOR BUDGET FROM BS.8.4 BILLION IN 1975 TO BS.6.9 BILLION IN 1976 IS A BS.1.1 BILLION REDUCTION IN REVENUE TRANSFERS TO THE STATES.

6. THE REDUCTION IN THE AGRICULTURE ALLOCATION FROM BS.3.4BILLION TO BS.3.2BILLION REFLECTS REDUCTIONS IN ALLOCATIONS TO THE AGRICULTURAL CREDIT INSTITUTE AND CORPPMERCADO (THE AGRICULTURAL MARKETING CORP.).

7. THE REDUCTION IN THE DEFENSE BUDGET FROM BS.2.446 BILLION IN 1975 TO BS.1.822 BILLION IN THE BUDGET BILL FOR 1976 RESULTED FOR THE MOST PART FROM THE TRANSFER TO THE MIN OF FINANCE OF CERTAIN CONTRACTS FOR NORMAL OPERATIONS.
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8. THE REDUCTION IN THE BUDGET OF MIN OF MINES AND HYDROCARBONS FROM BS.536 MILLION IN 1975 TO BS. 232 MILLION IN 1976 MERELY REFLECTS A NON-RECURRING SUPPLEMENTAL CREDIT OBTAINED BY IVP (VENEZUELAN PETROCHEMICAL INSTITUTE) THIS YEAR, BUT NOT INCLUDED IN THE BUDGET BILL FOR 1976.

9. A BS.33 MILLION REDUCTION IN THE BUDGET BILL FOR THE MIN OF

LABOR IS DUE TO IMPROVEMENT IN THE SOCIAL SECURITY ACCOUNT, WHICH NOW REQUIRES LESS BUDGETARY SUPPORT.

10. DESPITE THE DECLINE IN OIL REVENUE THE OTHER MINISTRIES WILL RECEIVE LARGER ALLOCATIONS UNDER THE 1976 BUDGET BILL. THE MIN OF FINANCE BUDGET WOULD BE INCREASED FROM BS.3.323 BILLION IN 1975 TO BS. 5.336 BILLION. THE INCREASE IS DUE IN PART TO THE CENTRALIZATION OF CONTRACTUAL PAYMENTS OF OTHER MINISTRIES FOR NORMAL OPERATIONS, SEVERANCE PAYMENTS, ESTABLISHMENT OF THE FUND OF REGIONAL CORPORATIONS AND REDUCTION OF THE PUBLIC DEBT. THE MINISTRY OF EDUCATION ALOS RECEIVED A MAJOR INCREASE IN ITS ALLOCATION FROM BS4.795 BILLION IN 1975 TO BS.5.346 BILLION IN 76.

11. THERE FOLLOWS THE ALLOCATION TO THE MINISTRIES INCLUDING SUPPLEMENTAL ALLOCATIONS FOR 1974-75 AND THE BUDGET BILL FOR 76.

MILLIONS OF BOLIVARES

MINISTRY	1974	1975	1976
INTERIOR	4,366	8,415	6,865
FOREIGN AFFAIRS	390	318	368
FINANCE	4,990	3,323	5,336
DEFENSE	2,128	2,446	1,822
COMMERCE	1,612	754	835
PUBLIC WORKS	4,873	3,480	3,560
EDUCATION	3,656	4,795	5,346
HEALTH AND SOCIAL ASSISTANCE	1,279	1,867	2,161
AGRICULTURE	3,656	3,440	3,155
LABOR	153	410	377
COMMUNICATIONS	824	779	796
JUSTICE	363	493	574
MINES AND HYDROCARBONS	1,227	536	232
SUBTOTAL	29,518	31,058	31,457
RECTIFICATIONS	-	16	130
VEN. INVEST. FUND	13,000	7,457	-
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PETROVEN	-	1,000	1,500
UNALLOCATED	-	-	-
TOTAL	42,518	39,531	31,167

12. COMMENT: DESPITE THE STATED INTENTION OF THE GOVT TO NEUTRALIZE THE INFLATIONARY EFFECTS OF THE DRAMATIC INCREASE IN OIL REVENUE THROUGH STRICT PRICE CONTROLS AND ALLOCATION OF THE SURPLUS IN THE VENEZUELAN INVESTMENT FUND, IT IS CLEAR THAT IT HAS SUCCUMEBED TO THE TEMPTATION OF ALLOWING EXPENDITURES TO INCREASE RAPIDLY TO THE LEVEL OF INCOME. THE LEVEL OF ORDINARY EXPENDITURES PROVIDED BY THE 1976 BUDGET BILL BS.31.55BILLION, IS MORE THAN TWICE THE ORIGINAL TOTAL BUDGET FOR 1974 OF BS.14.6 BILLION. IN OTHER WORDS THE GOVT HAS BECOME LOCKED IN TO A HIGHER LEVEL OF EXPENDITURE WHICH WOULD MAKE IT PAINFUL FOR THEM TO RETURN TO THE DAYS OF LOWER OIL INCOME PRIOR TO 1974. WITH DECLINING PRODUCTION RESULTING FROM

DECREASING WORLD DEMAND AND TAKING ACCOUNT THE PHYSICAL
LIMITATIONS OF THE COUNTRY'S OIL PRODUCTION CAPACITY, VENEZUELA
CAN REASONABLY BE EXPECTED TO SEEK EVER HIGHER PRICES FOR ITS OIL.

13. THE GOVT CONSISTENTLY HAS RECOGNIZED THE DANGER OF OVER-
DEPENDENCE ON OIL FOR ITS REVENUE AND HAS STRESSED THE NEED FOR
OVERHAULING ITS TAX SYSTEM, PARTICULARLY INCOME TAX IN LINE WITH
RECOMMENDATIONS FROM THE INTERNATIONAL LENDING INSTITUTIONS,
HOWEVER THE MIN OF FINANCE TOLD THE PRESS THAT TAX REFORM ONCE
AGAIN WOULD BE POSTPONED UNTIL MAR 1976. PREVIOUSLY THE INCOME
TAX REFORM WAS TO BE CONSIDERED BY THE CONGRESS AS SOON AS IT HAD
COMPLETED ITS DELIBERATIONS ON THE OIL NATIONALIZATION. DESPITE
THE URGENT NEED FOR TAX REFORM IN LIGHT OF POSSIBLE DECLINING
OIL REVENUE, THE EMBASSY IS NOT OPTIMISTIC THAT THE GOVT WILL
HAVE SUFFICIENT RESOLVE TO ACCOMPLISH IT IN THE FACE OF STRONG
OPPOSITION FROM VENEZUELAN VESTED INTERESTS.
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